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TAGS: [ECON](#) [EINV](#) [ETRD](#) [EPET](#) [EFIN](#) [EAIR](#) [BEXP](#) [EC](#)
SUBJECT: MIXED VIEWS: AMERICAN BUSINESSES WITH DIFFERENT
PERSPECTIVES ON ECUADOR

REF: A. QUITO 2167
[1](#)B. QUITO 1794
[1](#)C. QUITO 1655

Classified By: Classified by DCM Jefferson Brown. Reason: 1.4 B and D
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[1](#)1. (C) Summary. At an AmCham meeting, U.S. companies in heavily regulated industries noted a number of ongoing problems, but a textile company stressed that lightly regulated industries have fared much better. Several companies said they have good relations with the Correa Administration, which sees them as a source of employment, and one added that the GOE has reduced corruption in government procurement. A couple of companies are concerned about possible price controls and higher excise taxes. An auto company criticized the political opportunism behind the Correa Administration's decisions to eliminate taxes and duties for new taxis and allow taxis to use unsafe liquid propane gas. End summary.

[1](#)2. (C) The Ecuadorian-American Chamber of Commerce of Quito hosted a meeting on September 14 of its U.S. Business Committee, where U.S. members of the AmCham share in confidence their views on recent developments in Ecuador. The Senior Commercial Officer and EconCouns attended for the Embassy.

[1](#)3. (C) Bob Moss, the AmCham President, said that he and the Executive Director of the AmCham, Bernardo Traversari were committed to continued efforts to lobby for renewal of the Andean Trade Preference Act (ATPA), and they in fact made a trip to Washington for that purpose the week following our meeting. Traversari added that he had talked to Vice Minister for Trade Antonio Ruales, who assured him that the GOE also intends to lobby for ATPA extension, but would do so closer to its expiration date.

[1](#)4. (C) The local manager for General Motors made several observations. He said that his company's relations with the government of Ecuador have generally been good, and the GOE sees his company primarily as a source of employment. He said that GM had been in close discussions with the GOE in recent days over a government decision to allow taxis to be purchased and/or imported tax free. He said that his company would benefit from the policy, but said it was a purely political decision that had been made with "less than six minutes of economic analysis," and criticized the longer-term implications of the government foregoing millions of dollars of tax revenue for a purely political decision. He also criticized the GOE plan to support and subsidize a new program for taxis in Guayaquil to run on liquid propane gas

(LPG), saying it is the most dangerous fuel that could be used (some U.S. fleets run on natural gas, which he said is safer than LPG). The GM manager added that vehicle sales in Ecuador began to drop appreciably about four months previously; he attributed much of the decline to a drop in financing given uncertainty in the banking sector (ref c).

¶5. (C) Jeff Sheedy, a U.S. businessman who operates a textile company and several other businesses, stressed that while regulated industries have encountered problems in Ecuador, to date the business climate for unregulated industries has been good. He said that his textile company is planning to continue investing, but added much of its investment would be in labor-saving equipment out of concern that the upcoming Constituent Assembly might impose more stringent labor rules. He added that the Correa government has placed a priority on clean procurement practices, opening the door for his company to do business with the GOE; previously, government procurement had been too corrupt for his company to participate.

¶6. (C) Citibank said that the Correa administration sought tight controls over the banking sector, which had they been imposed would have placed the banking sector at risk. Congress walked back the proposed controls, but the Correa administration has said that it would use the upcoming Constituent Assembly to seek stronger controls.

¶7. (C) Two pharmaceutical companies, Abbott and Pfizer, focused their comments on price controls, and said that prices have been frozen in Ecuador for several years.

¶8. (C) City Oriente, a petroleum production company, said that it is waiting for confirmation that the government is

willing to renegotiate its contract on mutually acceptable terms. Since the prior government passed a revenue-sharing requirement in April of 2006, neither the previous nor the current government has initiated any meaningful contract discussions.

¶9. (C) Philip Morris echoed General Motors in saying that it has had generally good relations with the Correa administration, which also sees the company as an employer. The Philip Morris representative said that he is concerned about tax changes that have been proposed by the government, since if the government does reduce the value-added tax, it would partially offset the foregone revenue by increasing excise taxes, including on cigarettes.

¶10. (C) The manager for Hill's Floral noted the importance of ATPA renewal for the flower industry. He went on to say, however, that the U.S. flower market has begun to stagnate, so Russia now represents an increasingly important market for his company.

¶11. (C) The Hill's Floral representative also complained that the Ecuadorian flower industry is at a competitive disadvantage given the high operating cost for the Quito airport (ref a). The general manager for Marriott Hotels chimed in to say that his hotel has lost some package business to Guayaquil because of the high departure fees at the Quito airport.

¶12. (C) After the meeting, the manager of Machala Power, a U.S.-owned electricity company, told EconCouns that he chose not to burden his colleagues at the event with complaints about the electricity sector. He requested a meeting with the Ambassador to explain recent developments and will meet her on September 28.

¶13. (SBU) Kimberly Clark, a paper and consumer goods company had not been able to attend the meeting. However, in an earlier meeting with EconCouns, the Kimberly Clark manager said that business in Ecuador has been relatively good (13% growth) and consumer demand for its products remains strong. However, he said that Kimberly Clark's branches in Peru and Colombia are growing at a much faster rate (over 30%). He

said that his company is nervous that the GOE may attempt to impose price controls on its products, which are in the basic consumer basket, given GOE efforts to limit price increases for other basic goods (ref b). He said that his company will conclude an on-going investment project, but does not plan to initiate any new investment.

¶14. (C) Comment. The mixed messages we heard from U.S. companies reflects the broader uncertainty regarding Ecuador's economic climate. On the broader economic front, the Correa administration has sent mixed signals as to the direction of economic policy, which has hampered investment, but consumer demand and confidence appear to be relatively strong. Reflecting that division, the unregulated industries are doing relatively well and are guardedly upbeat about the business climate and their relations with the Correa administration, although they too have some concerns. The regulated industries naturally depend more on government decisions, and they remain frustrated with the lack of a clear policy direction. (Most of the problems in the regulated sectors predate the Correa administration, with the notable exception of the banking industry. For the most part the Correa administration has not aggravated those problems, but nor has it taken meaningful steps to resolve the problems).

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